An Investigation on the Impact of Financial Literacy and the Survival of Small and Medium Scale Enterprises in Yenagoa, Bayelsa State

Okumoh Nigeria Odaumiebi
Bayelsa State Polytechnic, Aleibiri,
Bayelsa State Nigeria
jameskereotu250@gmail.com, odauscopress@gmail.com

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ABSTRACT

Small and medium scale enterprises bring about development and creates job for the majority of citizens in a society. No economy has ever grown without taking great majors in ensuring their survival in the world. The recent call for foreign workers in Europe and America is to care for this sector of the economy. Nigeria has continued to experience a constant failure of these enterprises over the years, and it has become necessary to seek for solutions to enable the survival and these enterprises and to see them grow to partnerships and limited liability companies. This study takes a look at the use of financial literacy and proper accounting record keeping as a solution to the problem. A questionnaire was used to collect primary data from small and medium scale enterprises in Yenagoa, Bayelsa state. The data was analyzed with simple percentage and correlation. The results show that having a good knowledge of finance and preparing proper books of account has a positive and significant relationship with the survival and profitability of small and medium scale enterprises in Yenagoa, Bayelsa State. The study recommended that small and medium scale enterprises should prepare annual reports and submit them to the ministry of trade and industry for auditing.

Key Words: *Small and Medium Scale, Enterprises, Survival, Profitability and Business*

1. Introduction

Small and Medium Enterprises are bedrock economic instruments for economic stability, growth, and job creation. The absence of them in an economy means high unemployment in a nation, the in ability to grow them very well spells under development. Europe's high demand for low income workers in the continent is strong evidence on the importance of SMEs to economic stability in a state.

Efforts are currently being undertaken to lower the poverty rate in developing nations as part of the Millennium Development Goals (MDGs). People's dependency on the state and so-called "white collar" occupations is also being worked to lessen. Small business expansion and development is key to achieving these goals (Eneh, 2007). In addition, small businesses are crucial to the economic prosperity of every nation. They are a powerful tool for advancing national macroeconomic goals, such as increasing the quality of apprenticeship programs and increasing employment with minimal outlay of capital.

As its name suggests, financial literacy is front and center when it comes to the pursuit of organizational success as a whole (Bernheim, 2008). It also helps a company achieve some of its financial profit goals. As a result, knowing how to handle money has been crucial to the prosperity or bankruptcy of American businesses for decades. Therefore, it is the responsibility of companies and corporations to keep accurate books of accounts and provide only financial information that can be trusted. In the long term, this will assist increase their profits.

Understanding the concept of business and its associated financial and accounting concepts will help small entrepreneurs to treat the assets of the business in such a way that they might not be misappropriated by the owners in ignorance. The bigger firms or companies are guided by financial regulations on this regard, but SMEs are not guided by relevant agencies and regulations. The recent move for IFRS to seek to set up a draft on accounting for small and medium enterprises is a move for the right direction for such businesses.

Accounting underpinnings, ideas, and principles utilized in practice gather and report all the required information to assure dependability in its assessment (Nelson and Onias, 2011). Profit and capital may be considered as analogously as the life-blood of a corporation. Enikanselu and Oyende (2009) established beyond a reasonable doubt that the successful operation of any firm requires both an understanding of financial matters and access to some sort of accounting records. As a result, it's clear that knowing your way around money is crucial for the administration of any company, no matter how big or little.

Business managers most know the important of the separate entity concept, going concern concept, materiality concept, marching concept and more to known how to determine the profit of the business for a given period of time, what part of the business fund is not to be spent by the owner, how to determine the net worth of the business at any point in time and how best and when to compensate the owners.

Although they are supposed to be the backbone of Nigeria's job creation and economic and technical progress, small businesses today have not done particularly well and have not played the substantial role that was anticipated of them.

Small scale enterprises lack of financial literacy which is evident in their inability to keep complete accounting records. This invariably has resulted into a situation where SSEs operating in the state cannot capture adequately their business profits. This is because in the process of calculating profit, financial data are assembled in a way that can help make informed judgment and take decisions about the business. These financial data cannot be assembled without adequate financial literacy. This problem has ultimately affected the profitability of small scale businesses leading to frequent insolvency and folding up of such business.

The absence of proper accounting records translate to lack of financial risk awareness and plan, exposing such businesses to failure with little unfavorable events within the year. reckless spending, use of business funds for personal transactions, limited access to bank credit facilities and insurance policies are symptoms of lack of sufficient plan against financial risk. Many have conducted research on SMEs and their profitability (such as Atikinson & Messy, 2012; Eneh, 2007; Guiso & Japellib, 2008: Okoli, 2011) In like manner, scholars have also said much on SMEs and financial inclusion but none has considered the impact of financial and accounting literacy on their survival as a going concern.

The main objective of this study is to investigate the role of financial and accounting literacy on the survival of SMEs in Bayelsa State, Nigeria.

2. Literature Review.

Business survival and growth are key elements of sustainability, an economy with strong evidence of sustainability guarantees survival and stability. SMEs first and formost most be managed to survival the threats of economic woes associated with their ignorance with accounting and financial culture of business (Jones & Bartlet, 2008). An organization's priorities need to be reevaluated if it does not include staying in business (Gross, 1968). The continuation of a company is fundamental to the going concern idea in accounting. Giving this objective the attention it deserves helps the company achieve its other objectives, such as increasing profits, expanding its capital base, and retaining loyal customers. According to Gross, the imperative to stay in business is an unspoken rule in every group. This implies that continued existence is a necessary condition for any organization to consider itself useful (Gross, 1968).

Adewale (2011) argues that a successful company would not just try to keep things as they are, but will instead focus most of its energy on staying alive. Both internal and external forces pose substantial risks to the continued existence of any given organization. Organizational culture has very serious implications which include the approach to profitability. Profit is the main objective behind the establishment of any business organization. It is the engines that drive the business enterprise. Business owners need to educate themselves on how to succeed financially in a crowded economy. The company's success may be gauged by looking at its profit margin. It plays a significant role in the books of any business. A company's profitability reflects its success in turning revenues, assets, and maybe some capital stock into profits during a certain time period. Managers may build a successful profitability plan by first understanding the elements that affect profitability (Erina & Lace, 2013).

A careless culture towards proper accounting fines the profit management culture of the firm. A good culture for profit and strategic financial management will seek for ways to ensure that books of accounts are prepared from the financial transactions of the firm. Where this fails, the survival of the firm will be at a very high risk, capable to some many threats as, bankruptcy, loss of sales volume, customer patronage, waste of resources and materials etc, and accounting for the failure of SMEs in Nigeria. The concept of profitability has been enshrined in the following: Budgeting and Planning, Debt management, Saving Attitude, Time Value of Money, Diversification, Risk and Return; and Knowledge of Inflation.

The following empirical literatures were reviewed carried out on the study:

However, even those who are exposed to financial concerns do not appear to retain much of the knowledge, as was noted by Chatzy (2002) in his discussion of the financial literacy education of

American adults. She reasoned from data showing that adults, on average, got 15 of 31 multiple-choice questions about money right. After looking into possible causes, she advocated giving financial literacy instruction "a home" in elementary, middle, and high schools across the United States. She claimed that teaching individuals about money matters before they need it will have the most impact.

Schagen and Lines (1996) added to the expanding body of research on the issue by conducting a survey on the degree of financial literacy among individuals in the United Kingdom on behalf of the Natwest Group Charitable Trust. Selected samples were interviewed about their feelings about budgeting, their usage of financial services, their comfort borrowing money, and their use of online budgeting tools. They were also quizzed on topics including financial markets and instruments, making sound financial decisions, resolving money issues, and creating plans for the future. Schagen and Lines (1996) showed that in general, employees at NatWest Group Charitable Trust were more likely to save than to take out a loan. Most respondents who stated they kept meticulous records also claimed to know roughly what their account balances were. They felt a reasonable amount of assurance in handling money matters.

William-Harold and Smith (1999) published the results of a study they conducted with 500 SMBs about financial planning, record keeping, and investment. Sixty percent of them were able to save money, eleven percent held stocks, and forty percent maintained accurate records. Despite the fact that 56% of them had completed a money-management course, just 31% felt comfortable handling a bank account, and only 12% felt secure choosing between several bank accounts.

Dollar (2005) reported a simple survey of 1001 investors to determine their knowledge and skills in selecting financial products. Eighty basic multiple-choice questions were used. Men outstripped women in the 'very knowledgeable category, while 39% of women fell into the 'least knowledgeable' category with fewer than 50 correct answers. About 44% of over 65 years old scored less than 50%.

One hundred small businesses in Bindura, Zimbabwe were analyzed by Maseko and Manyani (2011). The study's goals were inquiring into the respondents' monetary literacy in terms of keeping necessary records and gauging profits. While 84% of company owners in Zimbabwe believe all small firms should be trained in bookkeeping, 72% report using a cash foundation of accounting for their financial reporting. It was determined that a lack of accounting understanding was to blame for SSEs' incomplete record-keeping practices in Zimbabwe.

Okoli (2011) investigated the relationship between proper record-keeping and the success of small businesses in Enugu state. The researchers looked at data from 168 different small businesses. His research led to the conclusion that single-entry accounting is preferred by small businesses because of its ease of use. Most small businesses fail because of sloppy bookkeeping, and knowledge of personal finance is correlated with success in business.

This research is based on the following hypotheses.

a. Hawley's Risk Theory of Profit

In 1893, F. B. Hawley puts out the risk hypothesis of profit. Obsolescence of a product, a precipitous decline in pricing, the introduction of a superior alternative by a rival, and danger due to fire, war, etc. are all examples of events that might threaten a company's profitability. Risk-taking was seen by Hawley's as intrinsic to the production process, with the proverbial money going to the brave. As Hawley sees it, the price society pays for taking on additional risk in business is the profit. Hawley maintains that in order to increase one's profits, an entrepreneur must be willing to take calculated risks. If there were no possible negative outcomes, business owners wouldn't be in business. Under this model, earnings come from taking on unnecessary risk.

b. Knight's theory of profit (The Uncertainty Bearing Theory)

This theory of profit is propounded by Frank H. Knight who treated profit as a residual return because of uncertainty, and not because of risk bearing. Knight made a distinction between risk and uncertainty by dividing risk into calculable and non-calculable risk. They are explained as follows.

i. Calculable risks are those, the probability of occurrence of which can be calculated on the basis of available data.
ii. Incalculable risks are those the probability of occurrence of which cannot be calculated.

3. Materials and Methods.

The research used descriptive survey design; the respondents were selected from a pool of SMEs in Yenagoa, Bayelsa state. The selected SMEs are among those registered with the state ministry of commerce and industry. Using the Yaro Yamani method, we randomly chose 324 small and medium-sized enterprises (SMEs) from a total population of 3,417 in the Yenagoa Local Government area of Bayelsa State, Nigeria. Primary data was gathered through the use of a questionnaire, and then analyzed using SPSS's basic percentage, correlation, and regression coefficient functions.

4. Results and Discussion

Analysis of Research Questions

Research Questions 1– To what extent is financial literacy adopted by small scale enterprises in Yenagoa Area?

Table 1: Yenagoa Area small businesses are embracing financial literacy.

S/N	**ITEMS**	**SA**	**A**	**U**	**SD**	**D**	**TOTAL**
Q1	Increase knowledge and appreciation of the benefits of inclusive financial services	147 (45.4%)	134 (41.4%)	8 (2.5%)	17 (5.2%)	18 (5.6%)	**324 (100%)**

Q2	Provides conducive environment for industry growth and development.	146 (45.1%)	139 (42.9%)	5 (1.5%)	19 (5.9%)	15 (4.6%)	**324 (100%)**
Q3	Improved savings culture and financial discipline	142 (43.8%)	157 (48.5%)	4 (1.2%)	7 (2.2%)	14 (4.3%)	**324 (100%)**
Q4	Improved entrepreneurship capacity	179 (55.2%)	114 (35.2%)	8 (2.5%)	11 (3.4%)	12 (3.7%)	**324 (100%)**
Q5	Results in more effective and efficient regulations and supervision of small scale businesses	126 (38.9%)	107 33.0%)	18 (5.6%)	43 (13.3%)	30 (9.3%)	**324 (100%)**
Q6	the skill of making prudent financial choices that boost one's financial situation	135 (41.7%)	130 (40.1%)	21 (6.5%)	16 (4.9%)	22 (6.8%)	**324 (100%)**

Source: Field Survey 2023

Based on the results shown in Table 1, 147 (45.4% of respondents) strongly agreed and 134 (41%) respondents supported the idea that small-scale businesses in the Yenagoa Area adopting financial literacy helps to increase knowledge and appreciation of the benefits of inclusive financial services, while 2.5% were unsure and 17 (5.2%) respondents were strongly disagreed. This simply implies that most respondents agree that small-scale businesses in the Yenagoa Area gain from increased awareness and appreciation of the advantages of inclusive financial services when they embrace financial literacy practices.

Again, 146 people (45.1% of the total) strongly agreed that the adoption of financial literacy in the Area helped provide a conducive environment for the growth and development of the industry; 139 people (42.9% of the total) agreed with the statement; 5 people (1.5%) were unsure; 19 people (4.9%) disagreed; and 15 people (4.6%) strongly disagreed. This suggests that the Area's embrace of financial literacy has contributed to the promotion of an atmosphere favorable to the expansion of existing industries.

Financial literacy in the area has improved savings culture and financial discipline, according to a survey where 41% of respondents strongly agreed with the statement and 41% agreed. However, 22% of respondents strongly disagreed with the statement, and 14% of respondents disagreed. This indicates that most people agree with the previous statement.

In addition, 126 respondents (38.9%) strongly agreed that increased financial literacy in the community has enhanced entrepreneurs' abilities; 107 (33%), agreed with the statement; 8 respondents (5.6%) are still on the fence about the issue; 43 (13.3%), disagreed; and 30 (9.3%), strongly disagreed. This suggests that the prevalence of financial education has a salutary effect on business creation.

Of the 324 respondents, 126 (38.9%) were in agreement, 170 (33.1%) were in support, 18 (5.6%) were unsure, 43 (13.3%) were in disagreement, and 30 (9.2%) were opposed to the idea that increased financial literacy leads to better regulation and supervision of small businesses. This simply shows that most respondents agree with the statement that increased regulation and oversight of small firms is the outcome of increased financial literacy.

Again, 135 respondents (42%) strongly agreed that financial literacy has helped them make more informed decisions about their money, leading to greater financial security; 123 respondents (38.8%) agreed; 21 respondents (6.6%) were unsure; 16 respondents (45%) were opposed; and 22 respondents (6.7%) strongly opposed. This suggests that they are better able to make educated judgments regarding their money, which is a step toward greater financial security.

Question 2: How much do accurate financial records improve a company's bottom line?

Table 2: Maintaining accurate books of account increases a company's profits.

S/N	ITEMS	SA	A	U	SD	D	TOTAL
Q7	I use purchase invoice to prove that something was willingly bought and paid for	152 (46.9%)	125 (38.6%)	18 (5.6%)	17 (5.3%)	12 (3.7%)	324 (100%)
Q8	I use sales invoice to keep a record of the sales in my business	157 (48.5%)	129 (39.8%)	16 (4.9%)	11 (3.4%)	11 (3.4%)	324 (100%)
Q9	I use debit note to inform the buyer of current debt obligations	197 (60.8%)	103 (31.8%)	8 (2.5%)	9 (2.8%)	7 (2.2%)	324 (100%)
Q10	When money is received, I use cash receipts to keep track of sales by crediting sales and debiting cash.	109 (33.6%)	96 (29.6%)	21 (6.5%)	55 (17.0%)	43 (13.3%)	324 (100%)
Q11	I make use of Sales day book to record non-cash sales with details of customer, invoice, amount and date	117 (36.1%)	139 (42.9%)	14 (4.3%)	34 (10.5%)	20 (6.2%)	324 (100%)

Test of Hypotheses

Hypothesis 1

H_o: Small businesses generally have a low rate of adopting financial literacy practices.
Profitability of small businesses and their owners' level of financial education

	N	R	p	Remark	Decision
Financial literacy					**Reject H_0**
	324	**.816**	**0.000**	**Significant**	
Small Scale Enterprise					**Accept H_1**

***** At the two-tailed alpha level of 0.05, the correlation is significant.***
The aforementioned Pearson correlation coefficient indicates that there is a strong relationship between financial literacy and being an entrepreneur. The 0.816** Pearson correlation at the 0.01% significance level demonstrates this. The movement of one variable almost always follows the motion of the other. Therefore, it is safe to say that business owners in Yenagoa Local Government Area have a high degree of financial literacy.

Hypothesis 2
$H0_2$ Accounting records has no significant relationship with the profitability of small and medium scale enterprises in Yenagoa

	N	R	P	Remark	Decision
Accounting Records					**Reject H_0**
	324	**.973**	**0.000**	**Significant**	
Profitability of Small Scale Enterprises					**Accept H_1**

***** Correlation is significant at the 0.05 level (2-tailed)***

As can be seen from the aforementioned Pearson correlation coefficient, keeping detailed financial records is positively correlated with increased profits for small businesses. The significance level of 0.01 indicates this with a Pearson correlation of 0.973**. The movement of one variable almost always follows the motion of the other. As a result, it's safe to say that keeping detailed financial records is good for a company's bottom line.

The first study hypothesis confirms that small-scale businesses widely embrace financial literacy. This claim was supported by Bernheim and Garrett (2003), who said that companies are compelled to promote widespread adoption of financial literacy in order to maximize productivity. No firm can function properly without an understanding of financial matters, a point also expressed by Enikanselu and Oyende (2009). Therefore, it follows that proper financial literacy is crucial for the effective administration of small and medium-sized enterprises.

Profitability for small businesses has been dramatically impacted by keeping detailed accounting records. Millichamp (1987) proposed that the use of an accounting system would significantly affect the profitability of small businesses, and this study lent support to this theory. This suggests that the use of accounting records by a small business has a material impact on the success of that business.

Small businesses that keep detailed accounting records tend to be more successful. Consistent with what Millichamp (1987) found, this conclusion underscores the need of having a thorough and reliable accounting system in place so that you can know exactly how much money you gained or lost at the end of each fiscal year. In addition, as Ezejelue (2005) pointed out, several polls have indicated that many unsuccessful small businesses were run with just inadequate recordkeeping. Egbu (2003) and Ejiofor (1989) found that small company owners saw keeping financial records as a necessary evil with no clear value, mandated by the government for the goal of collecting revenue. Therefore, some businesses consider keeping financial records to be a useless activity. This is likely the cause of the poor level of financial literacy among Yenagoa LGA's small businesses.

5. Recommendations

The study found that small and medium-sized businesses in Yenagoa benefited from greater financial literacy and the keeping of accurate books of account. It has recommended that firms in this industry should be regulated by the ministry of trade and industries in the state and to ensure that they prepare their annual financial statements and submit to the industry for vetting.

All small and medium scale enterprises should employ meddle level accounting staff to prepare their books of account on a monthly and annual basis for submission to the ministry. The audit staff of the ministry should perform the audit function for the enterprises with the payment of commensurate audit fee based on their annual retained profit for the year.

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